



Original Article

Chinese Assistance in the Pacific: Agency, Effectiveness and the Role of Pacific Island Governments

Matthew Dornan and Philippa Brant*

Abstract

Chinese development assistance in the Pacific has attracted increasing attention since the 1st China-Pacific Island Countries Economic Development and Cooperation Forum in 2006, at which China announced US\$492 million in concessional loans to the region. Another US\$1 billion in concessional loans was announced at the 2nd China-Pacific Forum in 2013. This article explores how Pacific island governments negotiate and oversee the implementation of Chinese official development assistance in four Pacific Island case study countries where assistance has been significant: Tonga, Vanuatu, Samoa and the Cook Islands. We argue that the way in which governments have pursued, overseen and implemented projects has differed considerably, and is an important determinant of the effectiveness and developmental impact of Chinese assistance.

Key words: Chinese aid, Pacific Island countries, China Eximbank, development assistance, Small Island Developing States (SIDS)

1. Introduction

Chinese development assistance in the Pacific has attracted increasing attention since the 1st China-Pacific Island Countries Economic Development and Cooperation Forum in 2006, at which China announced renminbi (RMB) 3 billion (US\$492 million) in concessional loans to the region. Many studies have focused on geostrategic implications of such assistance, and on the relationship between China and traditional aid donors (Henderson & Reilly 2003; Windybank 2005; D'Arcy 2007a; Hanson & Fifita 2011; Yang 2011). Pacific Island scholars have examined how Pacific Island governments have encouraged, and benefited from, competition between major donors (Powles 2010; Tarte 2010; Wesley-Smith 2010, 2013). However, as discussed below, none of these studies specifically examines aid effectiveness, nor do they look in detail at how Pacific Island governments negotiate or oversee Chinese aid projects.

This article addresses this research gap by exploring how four Pacific Island governments have pursued and implemented Chinese aid projects, and by discussing the impact of these approaches. Our results are based on interviews with 50 civil servants, political and business leaders, and Chinese embassy staff across four Pacific Island case study countries: Tonga, Vanuatu, Samoa and the Cook Islands, as well as New Zealand. Chinese contractors responsible for implementing aid projects in these countries declined to be interviewed. Chinese assistance to the four case study countries, situated in both Polynesia and Melanesia,

* Dornan: Development Policy Centre, Crawford School of Public Policy, The Australian National University, Canberra, Australian Capital Territory 0200, Australia; Brant: Lowy Institute for International Policy, Sydney, New South Wales 2000, Australia. Corresponding author: Dornan, email <Matthew.Dornan@anu.edu.au>.

has been both significant and at times controversial. **The research reveals that the approach of governments in negotiating, overseeing and/or implementing Chinese aid projects has differed considerably. We argue that this is an important determinant of the effectiveness and developmental impact of Chinese assistance to each country.**

2. Background

2.1 China and the Pacific Islands

The People's Republic of China (PRC) has a strong and growing engagement in the Pacific Islands region. China currently has diplomatic relations with eight countries—the Cook Islands, Federated States of Micronesia, Fiji, Niue, Papua New Guinea (PNG), Samoa, Tonga, and Vanuatu. The region has been the site of very active 'chequebook diplomacy' in the past decade, as Taiwan also has six diplomatic allies in the Pacific (Hanson & Fifita 2011). Pacific Island leaders have not been passive in this; **Pacific Island scholars have documented how governments have played China and Taiwan off against one another in order to secure greater resources** (Crocombe 2007; Tarte 2010; Wesley-Smith 2010, 2013; Varrall 2012). Such overt 'chequebook diplomacy' has now largely come to an end. China and Taiwan negotiated a tacit 'agreement' to no longer engage in overt tactics designed to buy off each other's diplomatic allies after the election of Taiwanese President Ma Ying-jeou in 2008. Although some Pacific Island governments have continued to 'play the Taiwan card', no Pacific Island country has been successful in switching allegiance since the 2008 agreement.¹

China disbursed approximately US\$850 million in bilateral aid to the eight Pacific Island

countries that recognise the PRC between 2006 and 2011. As a point of comparison, Australian aid to the Pacific Islands in the same period totalled US\$4.8 billion (Hayward-Jones 2013). A large component of this Chinese assistance was the 2006 'soft loan facility'—an RMB 3 billion regional funding facility negotiated and disbursed bilaterally. Many of these loans took a number of years to be implemented (Brant 2013). More recently in November 2013, a new regional assistance package was announced at the 2nd China-Pacific Islands Countries Forum in Guangzhou. The most significant outcome was the announcement of up to US\$1 billion in concessional finance, to be provided over four years (Xu & Zhao 2013). China also announced a commercial loan facility of US\$1 billion, administered through China Development Bank (CDB).

There is a large and growing literature on Chinese engagement in the Pacific. Much of the early literature that was focused on the geopolitical implications for traditional powers in the region was alarmist in nature. Henderson and Reilly (2003) argued that China 'is incorporating the Pacific Islands into its broader quest to become a major Asia-Pacific power', with Henderson (2001) characterising the Pacific as 'undergoing a geopolitical transition from American to Asian influence'. This body of literature typically portrayed Pacific Island countries as 'vulnerable to manipulation' (Windybank 2005).

Subsequent work has provided a more balanced perspective, emphasising the potential benefits of Chinese assistance for Pacific Island countries (Wesley-Smith 2010, 2013; Zhang 2010) and highlighting the active role played by Pacific Islanders in negotiating geopolitical tensions (Tarte 2010; Wesley-Smith 2010, 2013). Some of these authors have examined the implications of China's presence in the region for Australia and New Zealand (D'Arcy 2007a), while others have focused instead on what it means for Pacific Islanders (Iati 2010; Langa'oi 2010; Tarte 2010; Wesley-Smith 2010). A broader literature is concerned with the Chinese diaspora in the Pacific (see, for example, D'Arcy 2007b, Nelson 2010, Smith & D'Arcy 2013).

1. In mid-2011, Vanuatu's Minister of Foreign Affairs stated his intention to establish a trade office in Taiwan (and alluded to full diplomatic relations). He also wrote a letter to China asking it to provide funds to meet Vanuatu's US\$32 million budget shortfall, which the Chinese Ambassador agreed to provide 'part of' but only according to China's own conditions and capacity (i.e. continued support of the One China policy).

None of this literature has considered Chinese assistance from an aid effectiveness perspective, nor has it provided detailed analysis of Chinese development assistance in Pacific Island countries. Chinese assistance is instead normally discussed in the abstract, with little distinction between different aid modalities. The Chinese government is also generally treated as a homogenous entity, with no discussion of the various actors involved in the negotiation and delivery of Chinese development assistance.² Some useful research is now emerging on the 'bottom-up' processes of Chinese aid, including the role of Chinese companies (see Smith 2013); however, these studies have not focused on the roles played by *Pacific Island governments* in negotiating and overseeing assistance.

2.2 China's Foreign Aid Program

An understanding of China's foreign aid program is important. A key problem in the literature on Chinese aid is the tendency to lump all of the different types of Chinese economic engagement together under the label 'aid'. Partly, this results from China's lack of transparency in the types and terms and conditions of its assistance. It is also sometimes the result of lazy or confused analysis (see, for example, Lum et al. 2009).

In April 2013, the Chinese government for the first time provided an annual figure (RMB 40 billion or US\$6.4 billion) for its global aid budget (Du 2013). This places the amount of Chinese assistance on an approximate level with mid-level OECD Development Assis-

tance Committee (DAC) donors such as Australia. **Chinese bilateral foreign aid is provided in three forms: grants and interest-free loans administered through state finances, and concessional loans administered through China Eximbank. China utilises these modalities for different kinds of support and according to its assessment of the recipient country's financial management and situation.**

Interest-free loans are usually provided for 20 years, which includes five years of use, a five-year grace period, and 10 years of repayment (People's Republic of China 2011). These loans are used for public facilities and projects that 'improve people's livelihood'. The repayment terms can be renegotiated, and outstanding debts can be cancelled (in effect turning them into grants). Grants are not usually disbursed as cash, but rather are provided 'in-kind', and are used for small and medium-size projects that improve 'social welfare', for humanitarian aid, and as other in-kind assistance. Grants are commonly given in amounts of either RMB 10 million (US\$1.64 million) or RMB 20 million (US\$3.28 million). Small cash donations are also sometimes provided, usually in response to natural disasters or humanitarian emergencies.

Concessional (or preferential) loans are provided to fund larger projects, with a minimum loan of RMB 20 million (US\$3.28 million) and a current annual interest rate of between 2–3 per cent, with 15–20 year repayment after an initial 5 to 7-year grace period (People's Republic of China 2011). These loans are provided by China Eximbank 'under the designation of the Chinese Government'. The objective of these concessional loans is to 'promote economic development and improve living standards in developing countries', and to 'boost economic cooperation between developing countries and China'. Projects must be able to yield 'sound economic returns' or generate 'social benefits'. Interestingly, one of the key principles is that 'the borrowing country shall have sound diplomatic relations with the Chinese Government, and *shall be politically stable and economically sound*, with debt servicing capacity and reliable contract-performance record' (China Eximbank 2011,

2. Iati's (2010) examination of Chinese development assistance to Samoa provides a good example of the problems that can result. Iati is very positive about China's assistance to Samoa, with one of his principal arguments being that China's 'cancellation of Samoa's hefty debt is a prominent sign that Beijing does not intend to hold Samoa to ransom for any of its assets'. Although we do not take issue with this general argument, Iati's failure to distinguish between different types of Chinese loans is problematic. The 'hefty' debt to which Iati refers involved MOFCOM interest-free loans that were valued at approximately US\$11 million, and the debt cancellation in question formed part of a broader initiative in 2006, described below. Iati ignores debts to China Eximbank, which are of far greater value and are discussed below, and which were never cancelled.

emphasis added). Unlike the interest-free loans, concessional loans are not easily cancelled or rescheduled (Brautigam 2009).

Chinese 'aid' is not conceived as a separate policy; aid flows are but one (small) element within China's economic statecraft, which also includes official loans at commercial rates, export credits and suppliers' credits. Chinese foreign aid has (non-political) conditions attached, reflecting the links between aid, investment and development. For Eximbank's concessional loans, the contractor must be a Chinese company and (in principle) at least 50 per cent of materials must be procured from China. For projects funded through grants or interest-free loans, similar conditions apply. In this sense, Chinese aid is heavily criticised by other donors (and recipients) for being 'tied'.³

The tied nature of Chinese aid fits with its idea that aid should be 'win-win', with Chinese companies, suppliers, and workers also benefiting from the provision of assistance. Foreign aid is an important part of the Chinese government's 'go global' strategy, providing support to Chinese companies to gain overseas experience, as well as future investment and market access opportunities. There are further domestic drivers for the tying of aid, which Alden and Chen (2009, p. 9) summarise well:

A strong rationale in the form of Chinese competitiveness; the oversupply of local firms in areas like construction; cultural cohesion; and work ethic; as well as familiarity with Chinese government procedures, are all features that explain the preference for use of Chinese firms and factors of production in the delivery of projects.

There are a number of actors within the Chinese state apparatus involved in China's foreign aid policy and program management. The State Council sets the policy direction, the Department of Foreign Aid (DFA) within the Ministry of Commerce (MOFCOM) manages

the program, the Ministry of Finance approves the budget, and other ministries and government bodies are also involved in providing specific sectoral aid—such as scholarships through the Ministry of Education and medical assistance through the Ministry of Health. As mentioned, China Eximbank and Chinese companies have executing and implementing roles.

Embassies also play an important role, particularly because the Department of Foreign Aid (within MOFCOM) has no overseas offices and thus no direct in-country project managers. In partner countries, generally a single official—usually the Economic and Commercial Counsellor—in the Chinese embassy has responsibility for the aid program. In addition, Ministry of Foreign Affairs diplomats provide advice to Beijing about the aid projects for a particular country. The Chinese Ambassadors can provide some grants directly themselves, at their discretion.

Chinese contractors are heavily involved in the implementation of Chinese aid projects. Companies must be on the 'list of approved companies' in order to tender for projects, and this process is managed by MOFCOM. The companies are state-owned enterprises (SOEs), many of which grew out of former government departments or bodies but are now usually disconnected from the government aid apparatus. They are important actors in China's foreign aid program, often being the 'face' of China within recipient communities. The role of contractors and other key actors in the negotiation and implementation of Chinese assistance in four Pacific Island case study countries is discussed below.

3. Case Studies

3.1 Tonga

Tonga is the Pacific Island country where Chinese assistance has arguably been most prominent. MOFCOM has funded a number of grant-based infrastructure projects in the past 10 years, including construction of two high school buildings, the National Convention Centre and refurbishment of the

3. This point is often lost in studies by Pacific Island scholars, which instead emphasise the 'conditionality' of aid provided by traditional powers, and contrast it to the (incorrectly labelled) 'no strings' attached approach of China (see, for example, Iati 2010, Langa'oi 2010).

Dateline Hotel. Grant-based assistance to Tonga announced by China has increased recently, with the delivery (somewhat controversially) of an MA60 aircraft for domestic use by Royal Tonga Airlines, and the proposed construction of the St George Palace office block in 2013–2014 and 2014–2015.⁴ Assistance of this type has been ‘lumpy’, varying considerably in value from year to year (assistance will jump from US\$0.34 million in 2012–13 to US\$20.38 million in 2013–14 according to budget estimates).

More significant than grant-based assistance is concessional lending. Since 2008, Chinese assistance to Tonga has been dominated by two large China Eximbank concessional loans, which commenced in November 2008 and March 2010. The first China Eximbank loan to Tonga arose as a result of the 2006 riot, which saw the destruction of much of the central business district of Nuku’alofa. The loan of RMB 440 million (approximately US\$72.14 million) dwarfed earlier assistance from China. It was approved by parliament for reconstruction of the Nuku’alofa central business district, and involved both civil works elements and an on-lending facility for private sector businesses affected by the riot. A second loan of RMB 291 million (approximately US\$47.71 million) was agreed to 18 months later for road construction and rehabilitation. Both loans were denominated in Chinese RMB, were to be provided for a period of 20 years with a five-year grace period, and were to accrue interest at a rate of 2 per cent; standard Chinese concessional loans.

The loans have been criticised on numerous grounds. At a macroeconomic level, there are concerns about the indebtedness of the Tongan government. Public debt in Tonga is 43 per cent of gross domestic product (GDP), the majority of which is external debt (39 per cent of GDP). The two loans from China Eximbank account for 64 per cent of this debt stock, while 2.2 per cent is owed to the Bank of China. As a result, the International Monetary

Fund (IMF) had until recently labelled Tonga as being at high risk of external debt distress.⁵

Debt remains a significant burden for the Tongan economy. The current Tongan government has established a ‘no new loans’ policy in recognition of the difficulties it will encounter in future years servicing its debt obligations. At the same time, the Tongan Prime Minister has requested that the Eximbank loans be converted into grants. Repayment of the first Eximbank loan was to have begun in 2013–14, with repayments rising to over 17 per cent of government revenue in 2014–15 when repayment of the second loan commenced. However, China agreed recently to defer these repayments in response to requests from the Tongan government. Although there is lack of clarity and detail about this agreement, interviewees confirmed that repayment has been deferred for five years, but that the 20-year maturity does not change. This means that annual repayments will be larger when they begin in 2018–19.

There has also been criticism within Tonga about how the two China Eximbank loans were agreed, and of the way in which the funding has been used. The negotiation and establishment of both loans was led by the Prime Minister at the time, the Hon Dr Feleti Sevele, with the support of His Majesty King George Tupou V. Input from the civil service in negotiations was, by almost all accounts, limited. The Ministry of Finance advised the government against the first loan given its fiscal implications and resultant foreign exchange risk. This advice was dismissed. Parliament approved the loan for reconstruction work. However, there was limited uptake of loans offered to businesses that had been destroyed in the riots. Consequently, approximately 38 per cent of funding was actually used for construction of Vuna wharf and extension of the Royal Palace; something that has led to significant criticism and two politically

4. The donated aircraft was criticised on safety grounds, with New Zealand suspending its assistance to Tonga’s tourism sector in protest.

5. This rating has now been lowered to moderate risk of external debt distress, but due to a small improvement in Tonga’s Country Policy and Institutional Assessment (CPIA) scores rather than a reduction in debt levels. Tongan officials interviewed as part of this research viewed the improvement with scepticism.

charged inquiries (Brown Pulu 2012). Interestingly, the fiscal implications of the loan were barely discussed by parliament. Debate was instead dominated by parliamentarians arguing the case for spending outside of Nuku'alofa (and in their constituencies). This was reportedly part of the reason that the government pursued the second loan.

The second loan for road development across Tonga was also reported by civil servants to be 'politically driven'. The Ministry of Finance was not consulted about the second China Eximbank loan; it was first informed about the government's intention to sign the loan agreement through media reports. Loan negotiations were led by the Deputy Prime Minister and Minister for Works, with the Prime Minister's support. Ministry of Infrastructure officials also reported being sidelined, both in the negotiation process and in subsequent project selection.⁶ Parliament again approved the second China Eximbank loan with minimal opposition. Parliamentarians that were interviewed expressed their belief that both Eximbank loans would later be converted into grants, pointing out that this had already occurred in Samoa (although as described below, this did not occur for Eximbank loans).

Both loan agreements with China Eximbank were signed by the Minister of Finance. Design and contractor agreements were signed between the Minister of Works and the various Chinese design and construction companies that had won the tenders for work. Contractual agreements were short and sometimes vague. For instance, there was no reference to dispute resolution or arbitration; a provision normally included in such agreements. In its place is a short provision stating that disputes will be settled in 'a friendly manner'. Political leaders led the negotiations. Civil servants reported that in some cases, these figures undermined their attempts to negotiate conditions with Chinese contractors. In the case of the second loan, the Ministry of Works was unsuccessful

in requests for translation of design documents (which were in Chinese) and adherence to Australian road construction standards, with which ministry officials are familiar.

Tongan civil servants were also concerned about oversight arrangements, although construction quality was generally considered sound. There was dissatisfaction with oversight by engineers appointed by China Eximbank and the design company; these groups were considered to be closely linked to construction firms. However, neither did the Tongan government provide adequate oversight of construction. In the case of the loan for road rehabilitation, the Ministry of Works responsible for oversight had limited capacity to oversee construction, with no fully qualified engineers or architects, and insufficient government funding to outsource these activities. In the case of reconstruction efforts, oversight was the responsibility of the Nuku'alofa Development Corporation (a Cabinet sub-committee), which outsourced project oversight to a clerk of works from the private sector, Ca'Bella Limited. This was more effective. However, the arrangement has been criticised by the opposition, given that the same company later became a subcontractor on one of the construction projects (reportedly at the request of His Majesty King George Tupou V).

3.2 Samoa

Samoa has a long-standing relationship with China, having established diplomatic relations shortly after independence. As in Tonga, grant-based assistance has been modest and varied considerably from year to year. Grant-based assistance has been directed towards post-tsunami reconstruction (US\$5.8 million, 2011–12–2013–14), refurbishment of facilities for the Pacific Games (US\$19 million, 2007) and Women and Youth Hall (\$US1.6 million, 2009), agricultural assistance (US\$0.8 million, 2009), and construction of eight school buildings. Samoa has also benefited from small interest-free loans provided by MOFCOM. In 2006, these loans were converted into grants by the Chinese government;

6. The Ministry of Works became the Ministry of Infrastructure in 2012–2013, when it was merged with the Ministry of Transport and various other small agencies.

a gesture repeated in other least developed countries in the region.⁷

China Eximbank loans are of considerably greater value than other forms of assistance in Samoa. Eximbank loans have been provided in recent years for construction of a number of prominent public buildings, including the National Convention Centre (US\$52 million, 2008–09–2012–13), the parliamentary complex and adjacent Ministry of Justice and Courts Administration buildings (US\$41 million, 2008–09–2010–11), a National Medical Centre and Ministry of Health Headquarters (US\$41 million, 2010–11–ongoing), and a national broadband network (US\$15 million, 2011–12–ongoing). The terms and conditions of these Eximbank loans are identical to those provided in Tonga. These loans are less significant as a proportion of total debt than in Tonga. The majority of public debt in Samoa is held by multilateral development banks; debt to China measures 16 per cent of total debt (approximately 9.4 per cent of GDP). Aggregate debt levels are nonetheless very high, at 60 per cent of GDP in 2012–13, and a ‘no new loans’ policy is reported to be in place.

The negotiation and implementation of loans has been less controversial than in Tonga, although there has been criticism of travel by senior government officials paid for by Chinese construction companies (something that has also occurred in Tonga, the Cook Islands and Vanuatu).⁸ An important reason for the general acceptance of Chinese-funded

projects is the use of clear and transparent processes for decision-making relating to development assistance, which have helped safeguard the role of the civil service in negotiating and overseeing/implementing Eximbank loans. Development assistance to Samoa must conform to 14 sector plans established by the Samoan government. Development partners meet on a quarterly basis to coordinate assistance in a meeting led by the Ministry of Finance. China participates in these meetings, although is ‘not an active participant’.

Decisions relating to all major government projects are made by the Cabinet Development Committee, which is chaired by the Prime Minister, and includes all Cabinet members, Chief Executive Officers of government agencies and representatives from the private sector and civil society. Where development assistance is needed to finance a project, it must also be approved by a separate committee, the Aid Coordination Committee, which is again chaired by the Prime Minister and includes representatives from relevant ministries. The Ministry of Finance and Central Bank of Samoa provide advice to both committees, which is deemed especially important given the absence of rigorous cost-benefit analysis or feasibility studies that accompany Chinese projects. All loans are approved by parliament through a supplementary budget.

Oversight of construction in general is more robust than in Tonga. The Ministry of Works, Transport and Infrastructure organises oversight of Chinese-funded construction projects, including projects funded through grants and loans. The Ministry does not have capacity to perform these roles itself, so for each project it issues an open tender in order to hire a clerk of works to oversee construction. These positions have been filled by both domestic and international construction/engineering firms in the past. Contracts for both China Eximbank loans and construction works are signed by the Minister of Finance—a point of difference with Tonga where these roles are split between ministries. No Eximbank funds are handled directly by the Samoan government, but like in Tonga, the Ministry of Finance must approve payments from Eximbank to contractors.

7. At the 1st China-Pacific Island Countries Economic and Development Cooperation Forum in 2006, Premier Wen announced the following measure: ‘To support the Pacific island countries in developing their economy and ease their debt burden, China will give zero-tariff treatment to the majority of exports to China from the least developed countries in the region that have diplomatic ties with China. China will cancel their debts that became mature at the end of 2005 and extend by ten years the payment of debts contracted by other island countries that became mature at the end of 2005’.

8. Samoa’s Minister of Finance, Faumuina Tiatia Liuga, was criticised for a trip to China that was paid for by Shanghai Construction Group, the company contracted to build a large civil service building funded by China EXIM Bank (Samoa Observer 2013).

Civil servants that were interviewed were generally satisfied with the projects that had been implemented, with one noting that 'construction quality is the same as for other donor projects'. Decisions relating to project selection are inevitably political, and the Prime Minister is known to wield considerable power. Nevertheless, the processes outlined above ensure that politicians are aware of the economic and fiscal impacts of such projects when making decisions. These decision-making processes are considered to protect against 'dubious deals', even where Chinese construction companies lobby political leaders for work (as also occurs in Tonga). The publication of loan and grant details by the Ministry of Finance was viewed as an additional safeguard.

3.3 Vanuatu

Chinese assistance to Vanuatu has received considerable attention in recent years. As in Samoa, Chinese assistance has a long history. Two interest-free loans were provided by MOFCOM for construction of Parliament House and the Port Vila campus of the University of the South Pacific (USP) in the 1980s and 1990s. Both of these were later converted into grants. Grant-based assistance has been used to fund construction of sporting facilities used in the 1983 Pacific Mini Games, dormitories at the USP Port Vila campus, the Melanesia Spearhead Group building, the Vanuatu Agricultural College and the extension of Malapoa high school (construction of which is soon to commence). A more controversial project funded recently is the National Convention Centre, which critics have labelled unnecessary given that Vanuatu already has the Pacific's largest convention centre (Dorney 2013).

Eximbank loans have been used in recent years to purchase Y12 aircraft for use domestically by Air Vanuatu, and to fund the e-government communication system. The Government of Vanuatu is now actively seeking new loans from China Eximbank and other development partners, citing low debt levels (public debt is 23 per cent of GDP) and

a favourable 2013 IMF Article IV Consultation. Civil servants and political leaders interviewed for this research noted that in 2013 there has been an influx of Chinese construction companies into Vanuatu. These companies present infrastructure project proposals directly to ministers, and often claim to be able to arrange financing through China Eximbank. Five memoranda of understanding (MOUs) have been signed that allow companies to undertake feasibility studies for infrastructure projects, most of which were for road construction in rural areas. The feasibility studies do not oblige the Vanuatu government to take on new loans, but they are a first step in securing Eximbank financing. The documents have not been made public. One feasibility study viewed by the authors was more akin to a project proposal document than a feasibility study; it contained no substantive economic or technical analysis but was instead a broad statement in support of the project.

The most advanced of these new projects involves the construction of roads in the islands of Tanna and Malekula by China Civil Engineering Construction Corporation (CCECC). Civil servants that were interviewed claimed that an informal agreement for construction was made by the late Minister for Infrastructure and Public Utilities, Harry Iauko, prior to the receipt of any advice from the civil service. This type of arrangement is reported to be common practice; it is widely known that Chinese construction companies offer ministers benefits such as meals and travel when lobbying for projects (as also has occurred in other countries). The majority of civil servants interviewed labelled this 'corruption'. However, some justified it on the ground that politicians simply wanted to deliver infrastructure services to their constituents, and were taking matters into their own hands given the ineffectiveness of government service delivery. One interviewee described this as 'corruption, but not for personal benefit'. In this sense, it reflects the political clientelism⁹ that is present in many developing

9. Political power is described as clientelistic where policy preferences and the provision of public goods are of

countries, which in parts of Melanesia has been compared, controversially, to traditional leadership by 'big men'.¹⁰

The construction of roads in Tanna and Malekula provides an interesting illustration of the tensions that arise in approving concessional loans within the Vanuatu government. The loan originated in an informal agreement between the late minister and the contractor. The political power of members of parliament from Tanna ensured that the loan received the support of Cabinet; it was widely believed that the government would fall in a vote of no confidence if the loan did not proceed. However, there was disquiet about the lack of consultation with the civil service, both in regards to the absence of economic analysis and possible debt implications. Cabinet therefore made two concessions. It requested that the contractor fund an economic cost-benefit analysis of the road, to be conducted by the Ministry of Finance and Economic Management. The contractor agreed, but dedicated very limited resources to the study, which was based on only 6 days of fieldwork by two economists, and lacked necessary traffic volume data. The second concession by Cabinet was more significant: the loan amount was halved, from US\$100 million to US\$50

million, and where politicians instead focus on providing local public goods or private goods to their supporters (whose support is contingent on the transfer of these goods) (Hicken 2011).

10. Politics in Melanesia has been described as clientelistic by a number of authors, some of whom have noted the comparison with traditional leadership by 'big men' (Fukuyama 2008). Kabutaulaka (1998), for example, writes that in Solomon Islands: 'Voters have the same expectations of politicians today as the community had of the traditional Big-Man, and most politicians react to these expectations as the village Big-Man would have—distributing wealth to members of the group and participating financially in nearly every community affair'. Both arguments are contested, however. Fraenkel (2011) argues against the use of the term 'clientelism' to describe politics in the Pacific, pointing to the high turnover of MPs and the fluidity of political allegiances in Melanesia (excluding Fiji). Haque (2011) takes issue with cultural explanations of voter behaviour, arguing that voter behaviour is best explained not as a continuation of traditional political culture in the form of big man style governance, but rather in terms of rational responses to 'material incentives facing individuals'.

million. The revised amount ensures that construction will proceed in Tanna and Malekula (both political imperatives) but not on other islands.

3.4 Cook Islands

In the past decade, China has provided some NZ\$37 million (US\$34 million) in foreign aid to the Cook Islands. China has funded four main buildings in Rarotonga—the courthouse, police station, Ministry of Education and stadium. The courthouse and police station were funded through Chinese grants, and the stadium and Ministry of Education building funded through a NZ\$13 million (US\$10.6 million) concessional loan. China has also pledged annual small grants, usually used for purchase of equipment for the outer islands.

The same Chinese company, CCECC, was contracted to build all buildings over a period spanning 2004–2009, with one exception. Unusual within the Chinese aid process, the Ministry of Education building was constructed by a local company. As this was the first Chinese concessional loan to the Cook Islands, the government managed to negotiate a deal that Chinese labourers could be used during construction of the stadium, but a local contractor would be engaged for the Ministry of Education building.

The Cook Islands has recently negotiated a new NZ\$23 million (US\$18.7 million) loan with China Eximbank to upgrade water infrastructure on Rarotonga. This is part of a trilateral project also involving New Zealand; the first such case of a traditional bilateral donor working with China on a foreign aid-funded project in the world. The loan was pledged in 2006 as part of the regional concessional loan package. The previous Cook Islands government wanted to borrow NZ\$50 million (US\$40.6 million) to finance water infrastructure. And at one stage, the Chinese loan was to have formed part of a broader ADB project. However, the Puna Government, elected in 2010, put a hold on the loan while it assessed the fiscal situation in the Cook Islands.

Known as Te Mato Vai, the NZ\$60 million (US\$48.7 million) project due to commence in

2014 is the largest infrastructure development to take place on the island since the building of the airport in 1974. CCECC, the Chinese company that built the earlier Chinese aid projects, has been contracted to implement the Chinese part of Te Mato Vai. This consists of laying 26 km of ring mains around the island. A New Zealand grant (NZ\$15 million; US\$12 million) is funding other sections/components of the project, including a master plan and a project management unit, which will have oversight of the whole project, including the Chinese company. According to a number of officials interviewed, the Cook Islands' bureaucracy would not have had the capacity to do this itself. Given concern with previous Chinese construction, particularly over designs, quality and supplies, this management structure will likely be vital to the success of the project. The Cook Islands government has also established a formal high-level governance structure to help mitigate political risks.

The Cook Islands appears to be an unlikely location for the first trilateral cooperation project between China and a traditional donor. However, there are a number of factors that explain why and how this has come about. First, and most importantly, this cooperation has been driven by the Cook Islands itself. Interviews with key government stakeholders revealed a strong desire for collaboration rather than competition among donors. Almost all development partners, including China, participate in development partners' roundtables. Second, China and New Zealand themselves have a strong relationship; New Zealand was the first country to negotiate a free trade agreement with China. In addition, the Cook Islands' size and self-governing state status (in free association with New Zealand) means that the Chinese embassy in Wellington is also responsible for the China–Cook Islands relationship, making management of the trilateral project more straightforward. Finally, the project did not require any new funding commitment from China; there was an existing loan pledge waiting to be accessed. With a history of problematic projects in the Cook Islands, particularly due to poor construction and inappropriate designs for local conditions, the Chinese gov-

ernment itself has a keen interest in the success of this trilateral project. A positive political and development outcome here will help improve China's image in the Cook Islands, the broader region, and with traditional donors.

In terms of grant aid, the Chinese government has pledged more than NZ\$34 million (US\$27.6 million) in grants to the Cook Islands over the past 12 years. Of the NZ\$34 million, NZ\$20 million (US\$16 million) remains unspent.¹¹ Politicians have enjoyed the flexibility that comes with this aid—a sentiment shared by politicians and civil servants in other case study countries. However, this flexibility has also enabled (some) politicians to select projects for short-term financial or political gain. In 2013, the Cook Islands developed a three-year strategy for the utilisation of grant funding, to manage the backlog of Chinese grants. The strategy has been designed and driven by the Cook Islands to ensure the grant funds are spent on identified priority projects within the National Sustainable Development Plan, and not redirected at the whim of individuals. The NZ\$20 million has been assigned to specific items in the 2013–14 budget. This process has been driven by the Cook Islands bureaucracy and is supported by the Chinese embassy.

4. Discussion

Chinese assistance has varied considerably in the four case study countries. In Samoa, assistance has in general met the expectations and demands of the recipient government and civil service. This has not occurred in Tonga and Vanuatu, where assistance has been more blatantly political, and oversight and transparency more limited. Similar issues have arisen in the past in the Cook Islands, although the government has recently sought to address this. The differences between these countries have arisen as a result of the way in which they negotiate, coordinate and oversee or implement development assistance. The case studies

11. This is due to a number of factors, including an inability to program funds and internal disagreement of grant allocation.

therefore serve to demonstrate how the actions of Pacific Island governments have an important bearing on the actual and perceived effectiveness of Chinese assistance. They also add weight to the arguments of scholars who argue that 'shaping of the emerging regional order is firmly in the hands of Pacific Island countries' (Zhang 2010).

The importance of how Pacific Island governments negotiate and oversee implementation of Chinese-funded projects reflects broader discussions regarding state capacity and legitimacy in the Pacific. References to Pacific Island countries as 'weak' or 'failed' have become common in the last decade, particularly in relation to Melanesia (as described by Larmour 2005, Morgan 2005). **Pacific Island scholars such as Larmour (2005) have documented the 'mimetic transfer' of foreign policies to Pacific Island countries, arguing that such transfers have produced mixed results, particularly in cases where donors have sought to impose a 'good governance' agenda (DiMaggio & Powell 1991; Larmour 2005). These arguments are relevant to the aid effectiveness agenda promoted by the Paris Declaration on Aid Effectiveness (and its subsequent iterations) and the Cairns Compact on Strengthening Development Cooperation in the Pacific. Institutional arrangements designed to improve aid effectiveness, such as national planning and donor coordination mechanisms, are successful where driven by recipient governments.**

This is clearly evident in the four case study countries. All four countries have policy processes in place for the consideration and approval of development assistance. However, the extent to which these processes actually influence decision-making varies. In Samoa, major projects are approved by a committee with a wide membership base, and development assistance is vetted by a second committee. Both committees are advised by relevant agencies from the civil service. Such processes, although supported by 'traditional donors', have been developed since 2005 by the Ministry of Finance and are very much domestic initiatives. They ensure that the government is informed when making decisions

about development assistance, that such decisions are made transparently, and that the civil service is informed about major projects (even those it opposes). Donor coordination meetings facilitated by the Ministry of Finance also help to reduce duplication and target assistance towards priority areas, although the participation of Chinese officials in these meetings could reportedly be improved. In the Cook Islands, too, the government has recently taken a lead in managing the development assistance it receives, particularly through the aforementioned development partners' roundtables, in which the government outlines its priorities and development plans to all partners, which then indicate where they can provide support. The Ministry of Finance has again driven these arrangements, and Chinese participation is reportedly on par with other partners.

Similar donor coordination arrangements are in place in Vanuatu and Tonga, but are less developed and have been promoted to a greater extent by 'traditional donors' and regional bodies such as the Pacific Island Forum Secretariat (through the peer review process established as a result of the Cairns Compact). It is widely believed that decisions are made outside of these processes, a view that is supported by cases where ministers have presented projects at an advanced stage to the civil service, with no regard for sectoral planning priorities. Decision-making in relation to Chinese assistance in Vanuatu is in many cases blatantly political, with ministers presenting project proposals designed to directly benefit their constituencies. This is a reflection of the political culture in Vanuatu, where political leaders are expected to channel state resources to constituents (Morgan 2004). Political culture in Vanuatu has therefore adversely affected planning and decision-making at the national level. In Tonga, also, decision-making outside of policy processes is evident. In the case of the second China Eximbank loan, the Ministry of Finance was informed of the loan through the media. In the case of the first loan, Ministry of Finance advice against the loan was dismissed by government.

The role of central government agencies and sector (or line) agencies has therefore had a

bearing on the perceived and actual effectiveness of Chinese assistance. The Ministries of Finance in the Cook Islands and Samoa have played an important role in establishing institutional arrangements that support aid effectiveness, which have in turn helped to ensure that Chinese-funded projects meet the objectives of government. Ministries of Finance in both countries have also been heavily involved in negotiating and providing oversight of Chinese assistance, even where assistance is in an area traditionally the responsibility of a sector or line agency. **The involvement of these central agencies is important, given their close links to political leaders, their capacity relative to sector or line agencies and their ability to provide a broader assessment of the impact of a project than is likely from a sector agency (PRIF 2013).** The role of the Ministry of Finance (and Economic Planning) in Tonga and Vanuatu has been less prominent, as outlined earlier.

Increased transparency has been another result of efforts to improve aid effectiveness, and has had an impact on the perceived and actual success of Chinese-funded projects. It is well-known that Chinese assistance is opaque, although transparency is increasing as a result of efforts by the Chinese government and outside pressure. There has been limited transparency in assistance to the four case study countries. Contractual agreements were short and lacking in detail. Pacific Island government officials and leaders were unclear about the relationship between contractors, China Eximbank and the different Chinese government ministries. Tender processes in Beijing were opaque. One official noted that ‘all the contractors provided a quote for the same price, so how did they decide?’

Contractors were shown to play an important role in establishing Chinese-funded projects. Contractors approached ministers with assurances that they could arrange Eximbank financing, despite construction funded by such loans needing to proceed to tender. The same companies offered assurances that concessional loans from Eximbank would be forgiven in the future—an assertion cited by politicians as a reason that loans had received

their support.¹² Lack of transparency in these cases has clearly augmented the space for political clientelism, enabling political leaders to negotiate directly with Chinese contractors. **In Tonga and Vanuatu, lack of a transparent process has contributed to suspicion of Chinese assistance. In Tonga, the sensible act of appointing a clerk of work from the private sector for oversight of construction became politically contentious due to lack of transparency. In Vanuatu, perceptions of corruption among politicians have been made worse due to the failure to adequately involve the civil service in decision-making. Conversely, clear decision-making processes involving a wide range of stakeholders in Samoa and Cook Islands have helped to improve community awareness where Chinese stakeholders provide limited information.**

Another point of difference between the countries is in the way sector agencies have performed their functions. **China does not provide funding to governments for oversight of construction (neither do many other development partners, such as Japan). In Samoa, there is recognition of the limited capacity of the Ministry of Works, Transport and Infrastructure to oversee construction; a clerk of works from the private sector is hired through open tender to perform the role. In Tonga, this did not occur with the Eximbank loan for road rehabilitation and construction. The situation in Vanuatu has changed over time. The Vanuatu government in the past provided direct oversight of construction activities; a strategy that was demonstrated to be ineffective (some construction projects, such as the Vanuatu Agricultural College building, were poorly built). It now hires a clerk of works to oversee construction activities, in what civil servants argued was a demonstration of how government has learned from previous Chinese assistance.**

12. The activities of contractors were a concern among Chinese embassy representatives. But Chinese embassy officials also argued that greater clarity was needed on lines of responsibility and processes within Pacific Island governments, pointing to mixed messages from different ministries and politicians.

A similar learning process is evident in the Cook Islands. Earlier projects funded by China achieved mixed results, with a number of buildings being poorly constructed, limited domestic employment creation and assistance targeting areas that are not development priorities. The Ministry of Finance now emphasises the importance of policy processes for ensuring adequate oversight and targeting of assistance. The Ministry of Foreign Affairs has developed a three-year strategy for allocating grant funding. As one official explained, 'we now know better how to deal with the Chinese'.

Pacific Island countries are also learning from one another. Civil servants from the Vanuatu Ministry of Infrastructure and Public Utilities have communicated with colleagues in Tonga about oversight arrangements and negotiating strategies prior to discussions with Chinese contractors. Tongan officials have spoken to colleagues in the Cook Islands. There is clearly potential for lessons to be transferred across countries; a statement repeated by numerous civil servants interviewed for this project. Such 'organic' transfers are driven by Pacific Island civil servants that seek better ways of negotiating and overseeing Chinese assistance. They are more likely to be successful than aid effectiveness efforts that are promoted externally. One promising model is the trilateral cooperation project in the Cook Islands, which is being led by the Cook Islands Ministry of Finance. Many countries in the region are following this new arrangement with interest as it may offer a framework for their own management of Chinese and 'traditional donor' assistance. This article has argued that a key to the success of this model is that it is an initiative established and driven by the Cook Islands government.

5. Conclusion

A number of factors will influence the scale and nature of Chinese assistance to the Pacific in the future. Political dynamics within countries will clearly play a key role. There is ongoing concern in Pacific Island countries

about ministers seeking personal gain from Chinese engagement—particularly grant aid. The ability of governments to prevent this type of behaviour will have an important bearing on the perceived and actual effectiveness of Chinese assistance. National planning and donor coordination mechanisms that enhance transparency have the potential to assist in this task, and will also impact the ability of Pacific Island governments to address other challenges, such as appropriate oversight of construction and debt sustainability.

The impact and effectiveness of Chinese development assistance in Pacific Island countries is therefore dependent in large part on the actions of Pacific Island governments. Pacific Island countries are key players in the negotiation, oversight, implementation and (ultimately) effectiveness of Chinese assistance. Research in four case study countries—Tonga, Vanuatu, Samoa and Cook Islands—reveals the central role that Pacific Island governments themselves play in managing Chinese aid. It also highlights the important role of Chinese contractors in both the delivery and negotiation of projects. This role poses a challenge for both Pacific Island governments and the Chinese government in terms of project oversight, potential corruption and broader reputational damage; and is an area where further research is required. The article has argued that there is evidence of countries learning from experience and adhering to (or developing better) processes to respond to these challenges. The Chinese government too is recognising the need for more appropriate assistance, and is using the trilateral cooperation project as an important pilot case. Local development of oversight and planning arrangements by government stakeholders is more important than ever, given the latest announcements of Chinese assistance to the region.

May 2014.

References

Alden C, Chen AY (2009) *Chinese Development Cooperation in Africa: The Case of*

- Tembisa's Friendship Town, Occasional Paper (No. 30)*. South African Institute of International Affairs, Johannesburg, South Africa.
- Brant P (2013) Chinese Aid in the South Pacific: Linked to Resources? *Asian Studies Review* 37(2), 158–77.
- Brautigam D (2009) *The Dragon's Gift: The Real Story of China in Africa*. Oxford University Press, Oxford, England.
- Brown Pulu T (2012) *Shoot the Messenger: The Report on the Nuku'alofa Reconstruction Project and Why the Government of Tonga Dumped It*. Taimi Publishing House, Auckland, New Zealand and Nuku'alofa, Tonga.
- China Eximbank (2011) *Chinese Government Concessional Loan and Preferential Export Buyers' Credit*. viewed 15 January 2012 <http://english.eximbank.gov.cn/businessarticle/activities/loan/200905/9398_1.html>.
- Crocombe R (2007) *Asia in the Pacific Islands: Replacing the West*. IPS Publications University of the South Pacific, Suva, Fiji.
- D'Arcy P (2007a) *China in the Pacific: Some Policy Considerations for Australia and New Zealand*. State, Society and Government in Melanesia Discussion Paper 2007/4.
- D'Arcy P (2007b) *A New Era in Chinese-Pacific Engagement?*. Chinese Southern Diaspora Studies, vol. May, pp. 1–9.
- DiMaggio P, Powell W (1991) The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. In: Powell W, DiMaggio P (eds) *The New Institutionalism in Organizational Analysis*, pp. 63–82. University of Chicago Press, Chicago.
- Dorney S (2013) Vanuatu Bows to Chinese Demands to Secure Infrastructure Projects. Australian Broadcasting Corporation. 20 August. viewed 21 August 2013 <<http://www.abc.net.au/news/2013-08-20/vanuatu-bows-to-chinese-demands-to-secure/4900846>>.
- Du J (2013) Experts See Transparency on Foreign Aid. *People's Daily Online*, 16 April, viewed 17 April 2013 <<http://english.peopledaily.com.cn/90778/8209141.html>>.
- Fraenkel J (2011) The Atrophied State: A Supply-Side Perspective on Politician 'Slush Funds' in Western Melanesia. In: Duncan R (ed) *The Political Economy of Economic Reform in the Pacific*, pp. 298–311. Asian Development Bank, Manila.
- Fukuyama F (2008) State Building in Solomon Islands. *Pacific Economic Bulletin* 23(3), 18–34.
- Hanson F, Fifita M (2011) *China in the Pacific: The New Banker in Town*. Policy Brief, Lowy Institute for International Policy, Sydney, Australia.
- Haque T (2011) *The Influence of Culture on Economic Development in Solomon Islands: A Political-Economy Perspective*, State, Society and Government in Melanesia Discussion Paper 2012/1.
- Hayward-Jones J (2013) Big Enough for All of Us: Geo-Strategic Competition in the Pacific Islands. Analysis, Lowy Institute for International Policy, Sydney, Australia.
- Henderson J (2001) China, Taiwan and the Changing Strategic Significance of Oceania. *Revue Juridique Polynésienne* 1(1), 143–56.
- Henderson J, Reilly B (2003) Dragon in Paradise: China's Rising Star in Oceania. *The National Interest* 72 (Summer), 94–104.
- Hicken A (2011) Clientelism. *Annual Review of Political Science* 14(1), 289–310.
- Iati I (2010) China and Samoa. In: Wesley-Smith T, Porter EA (eds) *China in Oceania: Reshaping the Pacific?*, pp. 151–63. Berghahn Books, New York.
- Kabutaulaka TT (1998) Pacific Islands Stakeholder Participation in Development: Solomon Islands. Pacific Islands Discussion Paper Series, The World Bank.
- Langa'oi P (2010) China's Diplomatic Relations with the Kingdom of Tonga. In: Wesley-Smith T, Porter EA (eds) *China in Oceania: Reshaping the Pacific?*, pp. 164–78. Berghahn Books, New York.
- Larmour P (2005) *Foreign Flowers*. University of Hawai'i Press, Honolulu.
- Lum T, Fischer H, Gomez-Granger J, Leland A (2009) China's Foreign aid Activities

- in Africa, Latin America and Southeast Asia, CRS Report for Congress. Congressional Research Service, Washington DC, USA.
- Morgan M (2004) Political fragmentation and the policy environment in Vanuatu, 1980–2004. *Pacific Economic Bulletin* 19(3), 40–9.
- Morgan M (2005) Cultures of Dominance: Institutional and Cultural Influences on Parliamentary Politics in Melanesia. State, Society and Government in Melanesia Discussion Paper 2005/2.
- Nelson H (2010) Chinese in Papua New Guinea. In: Wesley-Smith T, Porter EA (eds) *China in Oceania: Reshaping the Pacific?*, pp. 104–17. Berghahn Books, New York.
- People's Republic of China (2011) *China's Foreign Aid: White Paper*. Information Office of the State Council, Beijing, China.
- Powles M (2010) Challenges, Opportunities, and the Case for Engagement. In: Wesley-Smith T, Porter EA (eds) *China in Oceania: Reshaping the Pacific?*, pp. 67–84. Berghahn Books, New York.
- PRIF (2013) *Infrastructure Maintenance in the Pacific: Challenging the Build-Neglect-Rebuild Paradigm*. Pacific Region Infrastructure Facility, Sydney, Australia.
- Samoa Observer (2013) Minister Defends Trip, 16 June, viewed 17 June 2013 <<http://www.samoaoobserver.ws/home/headlines/5431-minister-defends-trip>>.
- Smith G (2013) Beijing's Orphans? New Chinese Investors in Papua New Guinea. *Pacific Affairs (Special Issue: Global Perspectives on Chinese Investment)* 86(2), 327–49.
- Smith G, D'Arcy P (2013) Global Perspectives on Chinese Investment. *Pacific Affairs* 86(2), 217–32.
- Tarte S (2010) Fiji's 'Look North' Strategy and the Role of China. In: Wesley-Smith T, Porter EA (eds) *China in Oceania: Reshaping the Pacific?*, pp. 181–32. Berghahn Books, New York.
- Varrall M (2012) Chinese Aid as a Tool of Soft Power? In: Lai H, Lu Y (eds) *China's Soft Power and International Relations*, pp. 138–69. Routledge, London.
- Wen J (2006, April 5) Win-Win Cooperation for Common Development [Keynote speech]. China-Pacific Island Countries Economic Development and Cooperation Forum, Nadi, Fiji.
- Wesley-Smith T (2010) China's Pacific Engagement. In: Wesley-Smith T, Porter EA (eds) *China in Oceania: Reshaping the Pacific?*, pp. 27–48. Berghahn Books, New York.
- Wesley-Smith T (2013) China's Rise in Oceania: Issues and Perspectives. *Pacific Affairs* 86(2), 351–72.
- Windybank S (2005) The China Syndrome. *Policy* 21(2), 28–33.
- Xu J, Zhao Y (2013) China to Lend \$1b to Pacific Island Nations, China Daily (USA), viewed 9 November 2013 <http://usa.chinadaily.com.cn/world/2013-11/08/content_17092124.htm>.
- Yang J (2011) *The Pacific Islands in China's Grand Strategy: Small States, Big Games*. Palgrave Macmillan, New York.
- Zhang Y (2010) A Regional Power by Default. In: Wesley-Smith T, Porter EA (eds) *China in Oceania: Reshaping the Pacific?*, pp. 49–66. Berghahn Books, New York.